

# **Adopted Budget**

for the  
City of Huntington Beach



**2007/2008  
Fiscal Year**

Submitted by  
Penelope Culbreth-Graft, DPA, City Administrator

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# City of Huntington Beach

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# City of Huntington Beach

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# City of Huntington Beach

## City Council – 2007/2008



Gil Coerper  
Mayor



Debbie Cook  
Mayor Pro-Tem



Keith Bohr  
Council Member



Joe Carchio  
Council Member



Cathy Green  
Council Member



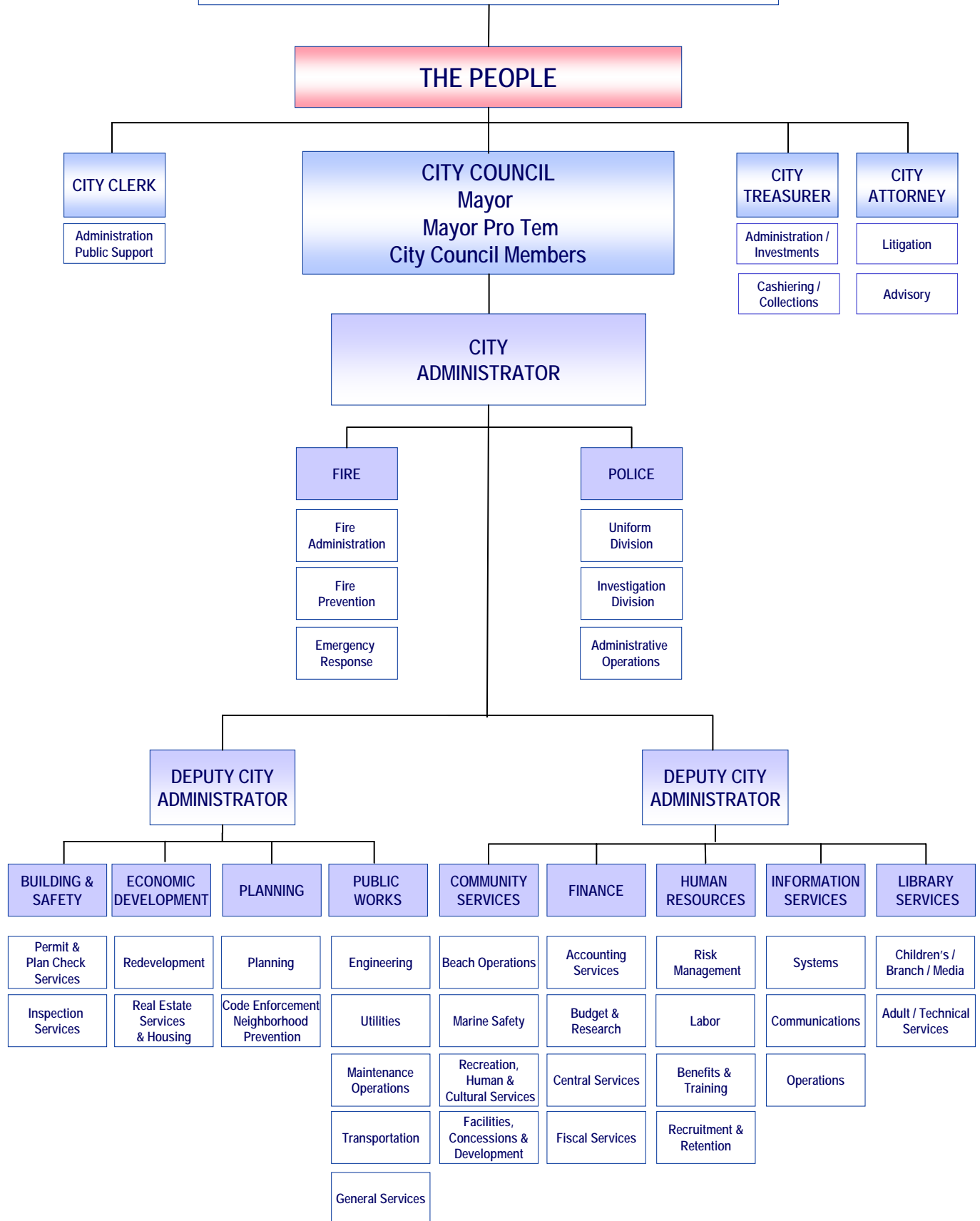
Don Hansen  
Council Member



Jill Hardy  
Council Member

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# CITY OF HUNTINGTON BEACH



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The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Huntington Beach, California for the Annual Budget beginning October 1, 2006. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and the City will be submitting the adopted budget to GFOA to determine its eligibility for another award.

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CITY OF HUNTINGTON BEACH

# BUDGET SUMMARY

OCTOBER 2007

## City Adopts Budget for FY2007/08

### BUDGET HIGHLIGHTS

- Total appropriations of \$330.3 million
- General Fund revenue projected to increase 2.8% over FY2006/07
- General Fund expenditures of \$188,130,488
- Over \$8 million allocated for essential equipment replacement and reserves



The City of Huntington Beach annual budget is a blueprint for how local tax dollars will be spent. It spells out priorities for municipal services and programs residents depend on. How the City manages its financial resources is reflected in the quality of the services provided to citizens and visitors every day of the year.

The water in homes and businesses, as well as the streets and the infrastructure supporting our lifestyles are funded by the General Fund and various enterprise funds managed by the City. In addition, most community amenities -- parks and athletic fields, libraries, community centers and beach areas -- are funded by the General Fund. Finally, unlike smaller cities in Orange County, public safety officers from paramedics to fire, police, and marine safety are directly funded by the City. In short, we have direct control over our most critical public services and are able to direct resources to those areas citizens consider most important.

This budget summary is an overview of the adopted budget approved by Council, covering revenues, expenditures, and related information

for Fiscal Year 2007/08. The City's fiscal year runs October 1 through September 30.

The City's budget emphasizes public safety, energy conservation, infrastructure improvement, and improved cleanliness of downtown. More detailed information can be found in the City's budget document, copies of which can be found online

Continued on page 4

Most services provided to Huntington Beach residents are paid for out of the General Fund: park maintenance, public safety, recreational programming, and street maintenance, to name a few.

On the flip side, revenue sources most people are familiar with



Huntington Beach offers excellent recreational programs for people of all ages.

are considered General Fund revenues: property taxes, sales tax, parking revenue, fines from traffic violators, and even a portion of vehicle registration. Other types of revenue are restricted and can only be used for specific purposes. For example, Measure M sales tax revenue (a half cent County of Orange sales tax) is earmarked for street-related capital projects as well as operation of the transportation system.

The next time you shop in Huntington Beach or pay property tax, remember that a portion of that money comes back to the City. That revenue is then budgeted and used to pay for essential services you depend on every day: community services, library, police, fire, and even accounting and finance.



Local wildlife -- like the 200,000 residents of Huntington Beach -- enjoy the City's parks and outdoor venues.

### HOW DOES THE BUDGET WORK?

When reviewing a municipal budget, references are made to the General Fund, Enterprise Funds, Grants, Special Revenue Funds, and so forth. But what does it all mean?

The primary funding source of any municipal budget is the General Fund.

### INSIDE THIS ISSUE:

General Fund Revenue Overview	2
Capital Improvement Program	2
General Fund Expenditures	3
Equipment Replacement	3
Human Resources and Staffing Plan	4

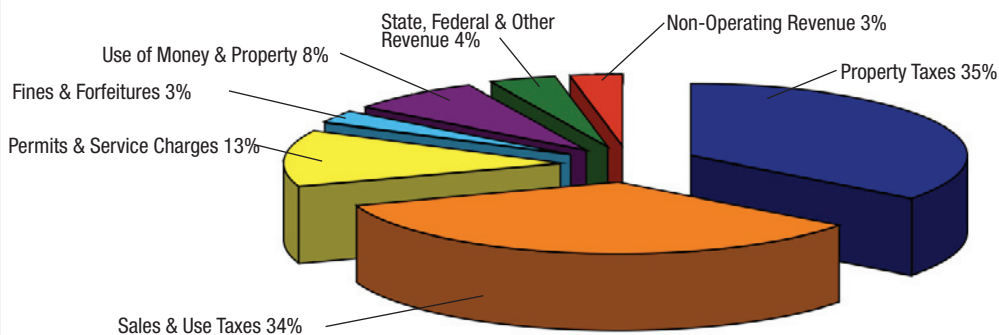


**Huntington Beach has a diversified revenue stream – various shopping and retail outlets provide sales tax revenue in excess of \$26 million to the City.**

## General Fund Revenue

The General Fund includes discretionary revenue the City has available to provide general services to our residents. This includes most City staff and operations of police, fire, recreation, beaches, library, planning, building, legal, and financial services. Revenues not included in the General Fund are specifically designated to projects such as infrastructure, water utilities, grant programs, and refuse collection.

Figure #1 shows the diversity of revenue sources and Table #1 indicates historical revenue. Property, Sales, Transient Occupancy, and Utility Users Taxes account for more than two-thirds of General Fund revenue. The City also receives revenue from the rental of City facilities, parking citations, State and Federal programs, and myriad other sources. This diversity in revenue helps the City weather changes in the economy. In recent years, revenue growth has been steady, thanks in part to rising home prices, increased retail strength, and improved reimbursement from the State and Federal governments. For FY2007/08, all of these factors combined are anticipated to total \$185,046,804 in revenue, a 2.9% increase over FY2006/07.



**Figure 1 - Diversity of Revenue Sources**

**Table 1 – General Fund Revenue**

Fiscal Year	Revenue
2002/03	\$105,653,743
2003/04	\$141,606,938
2004/05	\$157,795,347
2005/06	\$167,089,976
2006/07	\$179,822,823
2007/08	\$185,046,804*

\* Projected

**For FY2007/08, over \$42 million has been set aside for Citywide capital improvement projects.**



## Capital Improvement Program

The Capital Improvement Program (CIP) identifies major public improvements throughout the City. The CIP is a five-year budget and planning document; projects are scheduled and budgeted for the current fiscal year, plus the next five years. The CIP allows departments to set aside necessary resources for large projects. In general, the CIP includes new projects and upgrades to existing facilities costing in excess of \$50,000. The CIP is reviewed and updated annually as part of the budget process.

The CIP is developed to address elements contained in the City's General Plan, as well as City Council adopted planning documents and master plans. These projects correspond to goals in the Strategic Plan.

Notable FY2007/08 projects are:

- Land acquisition for the widening of Atlanta Avenue
- Various arterial highway rehabilitation projects
- Construction of permanent concession buildings on the pier

The FY2007/08 CIP represents a 15% increase over the amount appropriated in FY2006/07.

The portion of the CIP scheduled for FY2007/08 is approximately \$42,058,925. Projects are funded through grants, Enterprise Funds, Special Revenue Funds, the Infrastructure Fund, and other sources. For example, Huntington Beach receives a portion of the State gas tax as well as Measure M sales tax revenue for use on transportation and street projects.







## General Fund Expenditures

Figure #2 demonstrates the City's commitment to implement Strategic Plan objectives. Forty-six percent – almost half the General Fund – is devoted to public safety (police and fire).

Public Works, which plans and manages infrastructure improvement, will to receive approximately 12% of the General Fund budget. This includes \$822,000 in capital expenditures from the Capital Improvement Reserve (CIR).

Development Services includes the Economic Development, Building and Safety, and Planning departments and comprises five percent of the General Fund budget. The 13% of expenditures for Administration, Finance, and Elected includes: Human Resources, the City Administrator's office, and all elected officials.

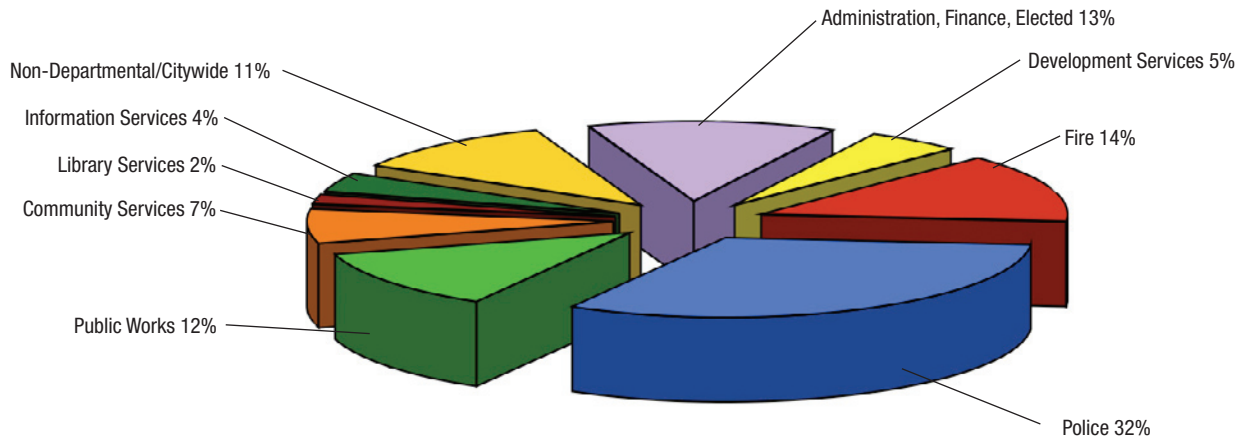


Figure 2 - General Fund Expenditures

## Equipment Replacement Program

As a full-service city, Huntington Beach purchases and maintains equipment to support numerous functions such as community services, public safety, beach operations, and public works. In order to ensure our citizens receive top-quality service, the City focuses on keeping equipment, from computers to vehicles, up-to-date and in good repair. To assist in this task, last year the City established a formal equipment replacement policy to ensure that each department has the tools and equipment it needs, when it needs them.

For FY2007/08, over eight million dollars has been allocated in the General Fund specifically for equipment replacement needs. This amount includes \$2.5 million in funding for the equipment replacement reserve. This reserve provides funds for future equipment needs.

As an example, some of the many items on the equipment replacement list in the coming year include:

- Hybrid vehicles
- Replacement furniture in the Library's Children's wing
- Community Center lighting upgrades
- Citywide parking meter replacement
- New sewer lift station pumps

The City uses various types of vehicles and equipment to deliver necessary services to residents.



The Huntington Beach Police Department has a fleet of helicopters helping to keep citizens safe and secure.

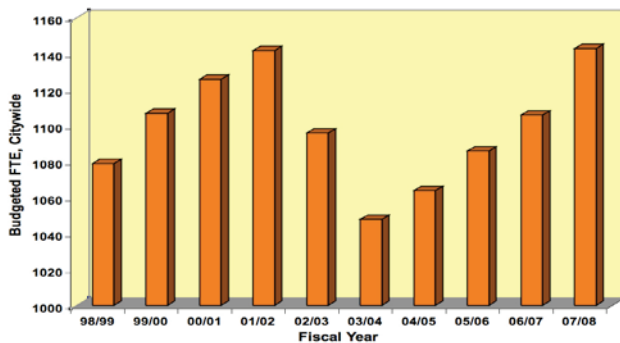


Huntington Beach's Class 1 Fire Department has the latest equipment at its disposal to assist in protecting lives and property.

## Human Resources and Staffing

Huntington Beach's downtown area and beaches are the heart of our identity and a major tourist destination fueling our economic base. To ensure that these valuable resources continue to be safe, clean, and family-friendly, the budget will increase police visibility in the downtown and visitor-serving areas by adding four new police officers for a dedicated downtown unit. A fifth officer will be added to the General Fund to replace a previously grant-funded position focusing on DUI (driving under the influence) enforcement.

**Figure 3 - Historical Budgeted Full-Time Positions**



Continued from page 1

at [www.surfcity-hb.org](http://www.surfcity-hb.org), at City libraries, or by calling the Public Information Office at (714) 536-5577.

The budget focuses resources on core services outlined through City Council priorities and the Strategic Plan adopted by the City Council in August 2006.

The adopted budget is \$330,272,198 across all funds. This is a modest 3.4% increase (without carryovers) from last year's adopted budget. General Fund expenditures represent 57% of the total, or \$188,130,488. The General Fund supports essential city services such as police, fire, public works, and community services.

General Fund revenue is projected to grow approximately 2.8% to \$185,046,804. This growth means the City can keep pace with increasing costs while improving services to residents. Revenue growth will come from the sale of appreciated real estate as well as sustained economic growth, meaning increased tax revenue for the City.

The current positive economic outlook for the upcoming fiscal year means that residents and businesses of Huntington Beach will benefit through improved programs and services citywide.

The adopted budget includes funding for a total of 1,144 full-time equivalent (FTE) positions; 960.89 positions are funded within the General Fund. Overall, 10.5 new positions are added (eight funded by the General Fund). In addition to the five new police officers, the budget includes an Energy Project Manager, Water Conservation Coordinator, part-time Transportation Coordinator, Battalion Chief, Deputy Fire Marshal, and staff positions in Police, Fire, and Public Works.

Figure #3 shows the past ten years of budgeted full-time positions (all funds). The adopted budget represents the first full fiscal year in which Human Resources will be a stand-alone department. This newly created department is organized into four functional areas: training and benefits, recruitment and retention, risk management, and labor.



**Whether you have two legs or four, there's always something to do in Huntington Beach!**



### Huntington Beach City Council



**City of Huntington Beach**  
2000 Main Street  
P.O. Box 190  
Huntington Beach, CA 92648

#### Questions?

Public Information Office:  
Phone: (714) 536-5577  
E-mail: [lpayne@surfcity-hb.org](mailto:lpayne@surfcity-hb.org)  
Web site: [www.surfcity-hb.org](http://www.surfcity-hb.org)



# City of Huntington Beach

2000 Main Street • Huntington Beach, CA 92648

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Penelope Culbreth-Graft, DPA *City Administrator*

November 2007

Honorable Mayor and Members of the City Council:

I am pleased to present the adopted FY 2007/08 budget. The balanced budget totals \$330,272,199, which is a 3.4 percent increase from last year's budget. The General Fund budget, which provides for the majority of public services to our community, totals \$188,130,488, representing an increase of 3.9 percent over last year's budget. This is a balanced budget that meets the required seven percent reserve of \$12,953,276, funds a second tier reserve of \$6,986,748, provides for continued buy-down of unfunded liabilities, funds \$4,602,071 in equipment reserves, and maintains a general liability reserve of \$2,000,000.

Every year, the City decides how it will spend its funds. Last year, the City Council approved the Strategic Plan, which gave staff five primary goals that were used in preparing this budget. These goals are: Financial, Infrastructure, Land Use and Economic Development, Engaging the Community, and City Services. Staff has outlined a program of service that will accomplish the following:

## Financial

- Completes the long-term financial plan started in July 2007 to assess long-term financial needs and proposes funding alternatives for infrastructure and program needs beyond five years;
- Updates the cost allocation plan; and,
- Completes first full-year auditing of Transient Occupancy Tax and internal programs.

## Infrastructure

- Creates a Capital Improvement Program of \$42,058,925 with full project documentation (under Capital Improvement tab of the budget):
  - \$2 million in drainage and storm water quality projects
  - \$2 million in maintenance and upgrade of city facilities
  - \$2.8 in neighborhood projects, including street rehabilitation and residential pavement
  - \$10.7 million in parks and beaches for pier buildings, senior center, and restrooms
  - \$3 million in sewer projects
  - \$11.9 million in streets and transportation projects
  - \$9 million in water projects
- Provides for an inventory of city facilities and designs a plan for long-term maintenance and upgrade;
- Establishes an Energy Project Manager position to create and administer a new energy management program; and,

- Implements nine out of ten proposed energy savings identified in the 2006-07 Kammerer energy assessment of city facilities.

#### Land Use and Economic Development

- Continues second-year funding for Downtown Specific and Parking Master Plans and the Edinger-Beach Corridor Specific Plan;
- Implements the Zucker study recommendations to include Planning Counter Manager (reassigned from another position), purchases an electronic customer tracking system, and increases training;
- Updates the Community Sport Facilities Inventory and Needs Assessment; and,
- Increases water conservation outreach efforts with the addition of a coordinator.

#### Engaging the Community

- Increases production of the mini-telephone directories;
- Increases data bases for the Library due to an increased number of citizens using the city's wireless network;
- Scans a backlog of city records to provide greater public access to historical documents;
- Converts building permit records to digital format, expanding access for customers;
- Implements internet registration for instructional Community Service classes;
- Funds the expanded graffiti reporting reward program;
- Increases the number of pre-produced programs on Channel 3;
- Creates the first Redevelopment Agency budget and annual report; and,
- Adds features to the City's GIS public web service.

#### City Services

- Increases cleaning frequency of downtown and beach restrooms with the addition of \$73,000 (increase to two-hour intervals during peak season and special events);
- Adds a dedicated police unit of four officers to the downtown;
- Addresses compensation issues to ensure recruitment and retention of highly qualified employees;
- Increases usage of the City Treasurer's autopay program, making it easier for residents to make payments, including addition of interactive voice response system to allow credit card payment via phone and the internet;
- Increases the number of Art Center classes offered; and,
- Focuses on DUI (driving under the influence) enforcement by General Fund commitment to retain one police officer position previously grant funded.

The economy remains stable despite a slowing housing market due to resale of homes that were acquired when purchase prices were low. Gains in tourist activity and continued rehabilitation of properties bring a moderate increase of funding to the City. While this moderate rate of growth has been positive, the City has taken the opportunity over the past three years to make salaries competitive with the Orange County market and address deficiencies in maintenance, equipment replacement, and infrastructure. The City has also worked to restore reserves for future economic uncertainties.

The adopted budget reflects the moderate growth in the economy with a 3.4 percent increase in expenditures. This provides for 10.5 new positions and the absorption of an additional police



officer from an expired grant. A significant increase is designated for improving downtown safety and cleanliness to address the impact of over 11 million visitors a year.

Intense effort continues on improving our economic standing through the development of major corridors and redevelopment of deteriorated areas. Resolving problems in our development and entitlement process continues as a high priority as we work to ensure a smooth building process within our community.

With the City Council's 2020 vision statement, staff continues to explore opportunities to address the five strategic goals. There is much to be done, but the vision statement has given us clear direction. I expect that FY 2007/2008 will be a time of substantial gains in creating a sustainable, family-friendly community given many of the enhancements in the budget.

The dedicated employees of the City of Huntington Beach remain committed to your vision. We are proud to serve and look forward to another year, working to meet the needs of our citizens, visitors, and businesses.

Sincerely,

A handwritten signature in black ink, appearing to read "Penelope Culbreth-Graft". The signature is fluid and cursive, with a large initial "P" and a stylized "G" at the end.

Penelope Culbreth-Graft, DPA  
City Administrator

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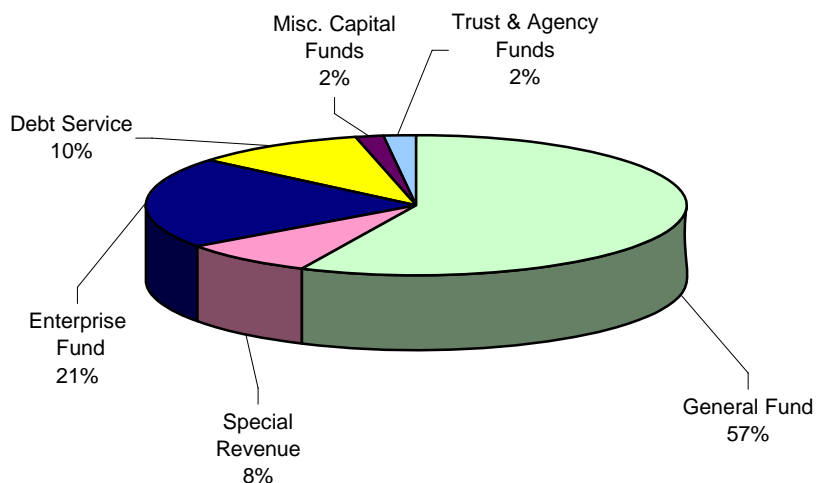
# City of Huntington Beach Budget Message

The adopted budget for fiscal year 2007/08 enables the City of Huntington Beach to continue its commitment to providing quality service to its residents and visitors, enhance community growth and development, and address the needs of the City's infrastructure. The budget was developed in conjunction with the City Council's recently adopted Strategic Plan which outlines five Strategic Goals: Financial, Infrastructure, Land Use & Economic Development, Engaging the Community, and City Services.

The combined annual budget represents a decrease of 5.1 percent over the adopted FY 2006/07 budget for a total of \$330,272,199. This decrease is due to the adopted FY 2006/07 containing \$28,647,225 of continuing appropriations from the prior fiscal year. Without this inclusion, the FY 2007/08 adopted budget would represent a 3.4 percent increase over FY 2006/07. An Estimated Fund Balance schedule for all funds has been included in the appendices section of this budget document.

The City's General Fund supports essential city services such as police, fire, marine safety, public works, and city administration, and represents 57 percent of the total adopted budget. The adopted FY 2007/08 budget projects \$185,046,804 in revenue, which is sufficient to support \$184,808,488 in ongoing expenditures. The General Fund also includes \$822,000 in capital expenditures designated in the Capital Improvement Reserve (CIR), as well as \$2,500,000 for equipment replacement reserves, for a total General Fund budget of \$188,130,488. In addition to the General Fund, the budget contains a combination of various funds dedicated to specific purposes including the Redevelopment Agency and Enterprise Funds. The adopted FY 2007/08 budget is broken down by type of fund in Figure 1.

*Figure 1. Total Budget by Fund Type*



The City of Huntington Beach's adopted budget is organized into six types of fund categories: the General Fund, Special Revenue Funds, Enterprise Funds, Debt Service Funds, Capital Project Funds, and Trust & Agency Funds. These groups, their major revenue sources, and significant changes affecting revenue and expenditures are described in subsequent sections.

*Table 1. All Funds Expenditure Summary*

	<b>FY 2003/04 Actual</b>	<b>FY 2004/05 Actual</b>	<b>FY 2005/06 Actual</b>	<b>FY 2006/07 Projected</b>	<b>FY 2007/08 Adopted</b>
General Fund	\$130,554,047	\$149,323,273	164,562,720	\$176,162,315	188,130,488
Enterprise Funds	51,337,865	51,954,949	49,491,452	79,502,216	69,452,932
Special Revenue Funds	40,811,509	38,044,985	58,710,815	55,839,052	26,758,153
Debt Service	23,105,869	23,190,351	27,645,029	27,698,955	33,899,609
Capital Project Funds	36,898,321	7,517,031	10,727,196	6,467,827	5,804,287
Trust & Agency Funds	14,055,773	5,004,189	6,282,116	6,750,586	6,226,730
Internal Service Fund	18,375	(645)	0	0	0
<b>Totals</b>	<b>\$296,781,759</b>	<b>\$275,034,132</b>	<b>\$317,419,328</b>	<b>\$352,420,951</b>	<b>\$330,272,199</b>

### **Strategic Plan**

In August 2006, the City Council adopted the five Strategic Plan Goals previously mentioned including: Financial, Infrastructure, Land Use and Economic Development, Engaging the Community, and City Services. These goals were the foundation for the Strategic Plan Projects adopted by the City Council in April 2007. The FY 2007/08 budget devotes significant resources toward these projects in both the operating budget as well as the Capital Improvement Program (CIP). Projects and programs incorporated into the FY 2007/08 budget include: the utilization of green building construction and fuel-efficient vehicles, arterial highway rehabilitation, enhancement of existing parks, and the reduction of the backlog of street trees to be removed.

Vital components of the Strategic Plan are Performance Measures. These measures ensure that city management has the ability to gauge performance on both day-to-day operations, as well as projects specifically related to the Strategic Plan. FY 2007/08 is the second year the City has utilized Performance Measures, which are located within each department's section of the budget document. Performance Measures outline major goals and objectives of the department, FY 2006/07 performance related to those goals, the target for FY 2007/08, and the objective's Strategic Goal.

### **General Fund**

Consistent with Strategic Plan goals and projects, the adopted FY 2007/08 budget emphasizes public safety, community services and development, and infrastructure needs. Table 2 highlights appropriations by department, as well as their respective historical spending totals.

*Table 2. Historical General Fund Expenditures by Department*

<b>Department</b>	<b>FY 2004/05 Actual</b>	<b>FY 2005/06 Actual</b>	<b>FY 2006/07 Projected</b>	<b>FY 2007/08 Adopted</b>
Building & Safety	3,259,375	3,541,380	3,876,751	4,248,640
City Administration*	7,313,449	5,504,192	7,526,839	1,969,657
City Attorney	2,325,883	2,272,270	2,628,406	2,800,536
City Clerk	678,663	828,013	972,851	995,352
City Council	253,934	270,698	288,885	305,140
City Treasurer	1,547,002	1,446,400	1,040,403	1,328,926
Community Services	10,727,283	12,488,688	12,859,166	13,853,419
Economic Development	776,061	1,120,864	1,545,939	1,680,174
Finance **	2,500,877	3,310,606	4,402,685	11,671,338
Fire	22,132,932	22,959,995	25,193,094	26,530,201
Human Resources*				5,778,178
Information Services	5,017,518	6,176,587	6,493,509	6,818,468
Library Services	3,124,651	3,355,159	3,831,988	4,006,459
Non-Departmental**	25,097,930	29,957,142	31,611,699	21,044,515
Planning	2,242,785	2,659,889	3,266,414	3,093,400
Police	45,355,121	49,695,504	55,147,915	60,237,013
Public Works	17,413,089	18,975,331	20,410,011	21,769,072
<b>Totals</b>	<b>\$149,766,552</b>	<b>\$164,562,720</b>	<b>\$176,162,315</b>	<b>\$188,130,488</b>

*\*Prior to FY 2007/08, Human Resources' functions were part of the City Administrator's Office.*

*\*\*A Debt Service transfer of \$6,550,000 previously budgeted in Non-Departmental is budgeted in the Finance Department for FY 2007/08. Further information on variances from year-to-year is explained in detail within each department's budget section.*

### ***Significant Changes***

In February 2007, the City Council approved the separation of the Human Resources and Risk Management functions from the City Administrator's Office into an independent department. This move was made to better serve the needs of City employees, as well as provide more effective management of these operations. FY 2007/08 will be the first complete fiscal year as a separate department for Human Resources.

Additionally, the budget continues its commitment to funding reserves designated for the replacement of equipment, while maintaining reserve amounts for liability claims and insurance. In recent fiscal years, the City has devoted significant resources to the replacement of obsolete equipment, as well as the establishment of a reserve for future equipment purchases. Funding of this reserve, and the continued replacement of outdated equipment, is included in the adopted budget for FY 2007/08. The reserve established in FY 2006/07 for liability and workers compensation claims is still in tact and will remain at the same level for the upcoming fiscal year with no new appropriations planned at this time.

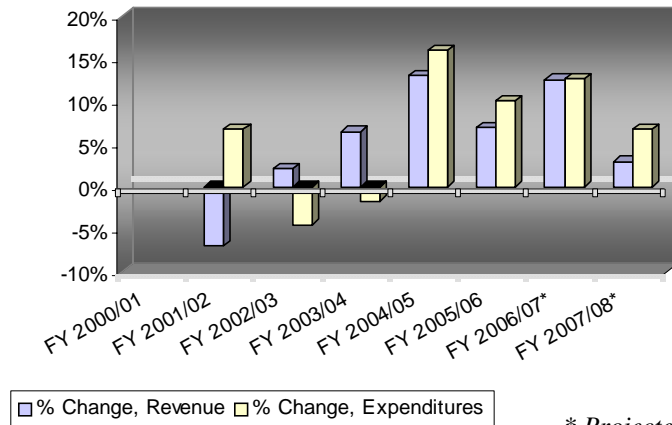
All other significant changes are addressed within the department summaries.

## Challenges

The adopted FY 2007/08 budget represents a successful compromise between service demands and a finite amount of resources. Along with much of the nation, the City of Huntington Beach has benefited from positive economic growth in recent years. This growth has translated into increased revenue in areas such as property and sales tax. Congruently, this growth has also led to an increase in the level of expenditures required to deliver public services. The escalation of construction costs, utilities, and personnel costs has contributed to the growth of the adopted FY 2007/08 budget over the prior fiscal year.

The recent above-average rate of increase in revenues has enabled the City to fund capital projects, maintain infrastructure, and offer competitive wages and benefits, preserving the City's ability to recruit and retain quality employees, as well as grow reserves. Since FY 2004/05, this effort has translated into a higher percent increase in year-over-year expenditures than in revenues. The rate of increase for both revenues and expenditures is anticipated to stabilize in future years.

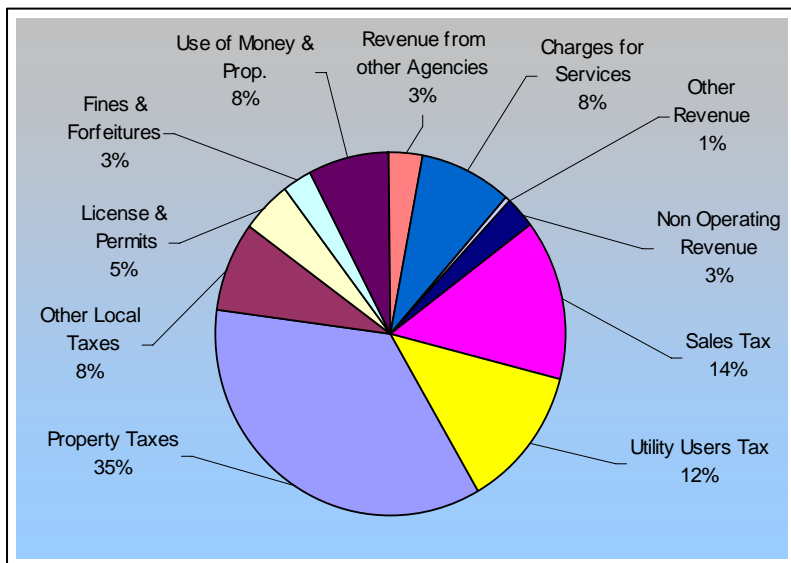
Figure 2: Percent Change in Revenues vs. Expenditures



## General Fund Revenue

The City of Huntington Beach receives revenue from a variety of sources (see Figure 3) allowing for a greater protection from economic downturns in any one area. The principal revenue sources for the General Fund are: property taxes, sales taxes, fees from licenses and permits, utility-users taxes, and revenue from intergovernmental agencies. City financial policies require an allocation of seven percent of the projected General Fund revenue to be held in a reserve account. For the FY 2007/08 budget, this reserve requirement is \$12,953,276.

Figure 3: General Fund Revenue by Type



an allocation of seven percent of the projected General Fund revenue to be held in a reserve account. For the FY 2007/08 budget, this reserve requirement is \$12,953,276.

Table 3 presents major revenue categories along with historical amounts received and budgeted.

*Table 3. Historical General Fund Revenue by Type*

<b>Revenue Source</b>	<b>FY 2004/05 Actual</b>	<b>FY 2005/06 Actual</b>	<b>FY 2006/07 Projected</b>	<b>FY 2007/08 Adopted</b>
Property Tax	\$48,118,935	\$55,167,632	\$61,059,764	\$65,001,000
Other Local Taxes	60,233,606	58,398,410	60,645,000	63,765,000
Licenses & Permits	7,432,476	7,208,576	11,689,400	9,051,200
Fines & Forfeitures	4,364,523	4,287,723	4,764,500	4,968,800
Use of Money & Property	9,891,264	12,084,259	14,001,542	14,126,000
From Other Agencies	6,807,830	5,318,012	6,171,538	5,564,500
Charges for Services	10,755,829	13,875,796	15,369,248	15,721,876
Other Revenue	3,100,714	3,129,392	1,290,000	1,212,000
Non-Operating	7,090,170	7,620,176	4,722,428	5,636,428
<b>Totals</b>	<b>\$157,795,347</b>	<b>\$167,089,976</b>	<b>\$179,713,420</b>	<b>\$185,046,804</b>

### ***Property Tax***

Property taxes are levied at the state-wide general property tax rate of one percent of assessed value, with a maximum adjustment of two percent per year. Property tax revenues have grown steadily in recent years due to increases in housing prices and sales county-wide. In FY 2007/08, property tax revenue is expected to increase over the FY 2006/07 projected revenue by \$3,941,236, or six percent, for a total of \$65,001,000.

### ***Sales Tax***

Sales and Use Taxes are imposed on retail transactions and are collected and administered by the California State Board of Equalization. The City of Huntington Beach receives revenue from two major sources of Sales and Use Taxes. The first is the Bradley-Burns Sales and Use Tax, of which the City realizes 0.75 percent of total taxable sales generated within the City. The City also receives a portion of the 0.5 percent “Public Safety Sales Tax” approved state-wide by voters as Proposition 172, which became effective January 1994. For FY 2007/08, sales tax revenue from these two sources is projected to increase by six percent over the FY 2006/07 fiscal year, for a total projection of \$26,060,000.

### ***Utility Users Tax***

A Utility Users Tax (UUT) of five percent is imposed on consumers of telephone, electricity, gas, water, and cable television services within the City limits. The UUT is the City’s third largest revenue generator for the General Fund and is projected to increase by 0.4 percent in FY 2007/08 over the projected FY 2006/07 budget, bringing in an estimated \$23.13 million to the General Fund.

### ***Transient Occupancy Tax***

The Transient Occupancy Tax (TOT) is imposed on lodging facilities such as hotels and motels. The City’s current tax rate is ten percent for the use of a room in a hotel or other lodging facility. The TOT is projected to increase by six percent to \$6,500,000 in FY 2007/08.

## ***Vehicle License Fee***

The City of Huntington Beach realizes revenue from vehicle license fees (VLF) through a 0.65 percent tax on vehicles, as well as an “In-lieu of VLF” property tax designed by the State of California to replace revenue lost when it reduced the tax rate from two percent. Combined, these two sources are projected to be \$16,325,000 for FY 2007/08, a seven percent increase over projected revenue for FY 2006/07.

## ***Licenses and Permits***

Licenses and permits generate revenues from activities such as business licenses, building-related permits, and other development permit fees. The most significant revenue sources from the licenses and permits category are the Business License and the Building Permit Fee. Licenses and permits comprise approximately five percent of the General Fund revenue and are expected to decrease by twenty three percent for a total of \$9,051,200 for FY 2007/08. This decrease is due to the one-time payment of \$4,000,000 in developer fees relating to the Brightwater project in FY 2006/07.

## **Enterprise Funds**

Enterprise funds are proprietary funds supported by user fees. The rates charged to consumers for these services cover the current cost of operations, and the maintenance and financing of related capital assets. The City of Huntington Beach maintains five main enterprise funds: Water, Water Master Plan, Sewer Service, Refuse, and Emergency Fire Medical. The expenditures in these funds allow for the operation of essential services and address the City’s commitment to protecting public health and safety. Enterprise fund expenditures for FY 2007/08 total \$69,452,932, representing a 13 percent decrease from projected FY 2006/07 expenditures. This decrease is expected as these funds provide funding for extremely large projects. Due to the complexity of the work involved and engineering schedules, the annual budget for these funds will often rise and fall according to the number of projects planned for a given year and the amount of continuing appropriations from one fiscal year to the next.

*Table 4. Historical Expenditures for Primary Enterprise Funds*

	<b>FY 2004/05 Actual</b>	<b>FY 2005/06 Actual</b>	<b>FY 2006/07 Adopted</b>	<b>FY 2006/07 Revised</b>	<b>FY 2007/08 Adopted</b>
Water	22,933,771	17,498,157	36,527,648	39,922,836	35,913,629
Water Master Plan	5,805,642	10,453,985	2,537,776	13,875,071	4,226,185
Sewer Service	5,923,909	3,879,941	8,028,585	19,863,916	8,592,797
Refuse Collection Service	9,755,229	10,236,224	10,479,844	10,480,103	10,610,778
Emergency Fire Medical	5,675,896	5,817,857	8,349,190	8,827,323	7,812,613
<b>Totals</b>	<b>\$50,094,447</b>	<b>\$47,886,164</b>	<b>\$65,923,043</b>	<b>\$92,969,249</b>	<b>\$67,156,002</b>

## **Special Revenue Funds**

Special revenue funds are funding sources legally restricted to a specific purpose, most often related to infrastructure. For example, the Gas Tax and Transportation Funds (i.e., Measure M), limit expenditures to street and transportation improvements within the public right-of-way. For



FY 2007/08, Huntington Beach is projected to receive \$7.2 million in Gas Tax revenue and \$2.5 million in Measure M monies, a decrease of eleven and seven percent respectively. Fluctuations in Special Revenue Funds are anticipated given the complexity and schedule of capital projects programmed in one year, but often carried forward into a future year.

Additional special revenue funds include the Drainage, Traffic Impact, Park Acquisition and Development, Air Quality, and Library Services Funds. The first three receive revenue directly from development fees. The latter two funds are restricted to projects aimed at reducing air emissions and renovation of the Central Library, respectively. All Special Revenue Funds (including those not mentioned above) have estimated revenue for FY 2007/08 of \$29,626,415.

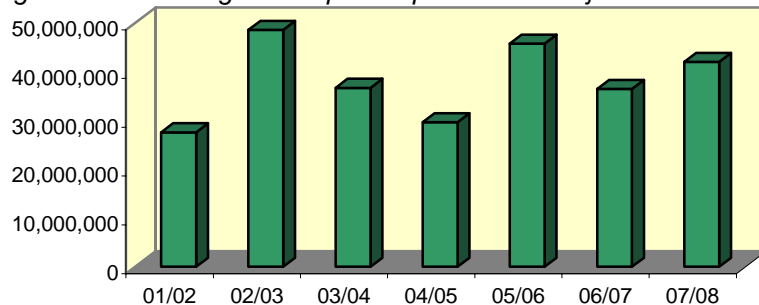
### **Capital Improvement**

The goal of the Capital Improvement Program (CIP) is to identify and budget for major public improvements to the City's infrastructure over a five-year period of time. The program is reviewed and updated annually and identifies funding sources and project schedules, as well as the project's relationship to the Strategic Plan. Figure 4 provides the history of CIP budgets from FY 2001/02 to the current budget year.

Given the breadth and scope of capital projects, they often span several fiscal years and are broken down into numerous phases ranging from design to construction. The portion of the CIP scheduled for FY 2007/08 totals \$42,058,925 and is funded through grants,

Enterprise Funds, Special Revenue Funds, the Infrastructure Fund, and the General Fund. The adopted CIP represents a fifteen percent increase over the amount appropriated in FY 2006/07.

Figure 4. Total Budget of Capital Improvement Projects



Major projects for the upcoming fiscal year include land acquisition for the widening of Atlanta Avenue, city-wide water main replacement, utilities yard improvements, construction of permanent concession buildings on the pier, and various arterial highway rehabilitation projects. Specific details including project descriptions, timelines, and funding sources for all proposed capital improvement projects are included in the CIP section of this document, as well as the separately published CIP document.

### **Personnel Resources**

The adopted budget includes 1,144 full-time equivalent (FTE) positions, with 960.89 positions funded within the General Fund. In evaluating requests for new positions, emphasis was placed on enhancing community safety and increasing police visibility in the downtown and visitor-serving areas. As a result, four new Police Officers are to be funded from the General Fund in FY 2007/08. A fifth Police Officer is added to the General Fund for an existing grant funded position, which the City agreed previously to pickup after expiration of Driving Under the

Influence (DUI) grant funding. These positions are vital to furthering the growth of Huntington Beach as a tourist destination, while preserving the safety and quality of life of its residents.

Analysis of the requested new positions yielded approval of 10.5 new positions, including eight from the General Fund. The balanced budget for the General Fund includes the following new positions:

<b>Position</b>	<b>Department</b>	<b>FTE</b>
Police Officer	Police	4.0
Battalion Chief	Fire	1.0
Project Manager (Energy)	City Administrator	1.0
Account Technician II	Police	1.0
General Services Manager	Public Works	1.0
<b>Total</b>		<b>8.0</b>

The balanced budget for all other funds includes the following positions:

<b>Position</b>	<b>Department</b>	<b>Fund</b>	<b>FTE</b>
Deputy Fire Marshal	Fire	FireMed	1.0
Transportation Coordinator	Human Resources	AQMD	0.5
Water Conservation Coordinator	Public Works	Water	1.0
<b>Total</b>			<b>2.5</b>

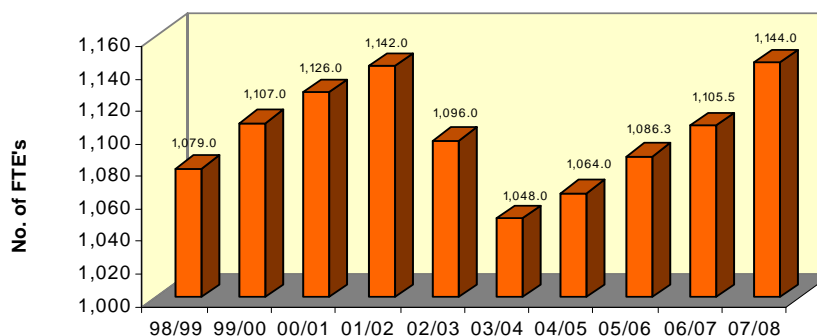
Detailed information regarding personnel changes is included in each department's summary.

### **Unfunded Liabilities**

The City of Huntington Beach has four post-retirement benefit unfunded liabilities, outlined in detail in the Comprehensive Annual Financial Report (CAFR). These unfunded liabilities are: the Public Employee Retirement System (CalPERS) contract for safety employees (\$60,305,000), the CalPERS contract for non-safety employees (\$3,825,000), the Retirement Supplement Plan (\$26,245,000), and the Retirement Medical Subsidy (\$6,548,000). While these numbers reflect the most current actuarials, updated numbers will be available in late 2007.

The CalPERS contract requires payment of this liability through the payroll process. The City's actuarially-required contribution pays for current service and the amortized portion of the unfunded liability. Approximately 41 percent of the City's employer contribution for safety employees will go toward reducing the unfunded liability, and 16 percent of the City's employer contribution for non-safety employees will go toward this liability.

*Figure 6. Historical Budgeted Full-Time Positions (FTE)*



The amount the city should set aside each year for the Retirement Supplement Plan is determined actuarially and is included in the adopted budget. Approximately 74 percent of this payment goes toward reducing the unfunded liability. Because this plan is not provided to employees hired after 1997, liability is reduced through the budgeted payments and the mortality of the participants.

The actuarially-required Medical Subsidy Plan payment is also included in the FY 2007/08 budget. For fiscal year 2007/08, the City will be required to implement a new accounting pronouncement, Government Accounting Standards Board (GASB) Statement No. 45 concerning the reporting and funding of other post-employment benefits. The City has contracted with an independent actuary to perform a study on the funding rates for the City's retiree medical plan. Huntington Beach is one of the few cities in the country that pre-funded these benefits resulting in a considerably lower rate, contributing 2.75 percent of payroll to fund this benefit.

### **Economic Outlook**

The City of Huntington Beach has enjoyed several years with above-average increases in revenue driven largely by the sale of appreciated real estate and new construction. In fiscal year 2006/07, the local, state, and national economies witnessed the first signs of a slow down in the rate of increase. The frequency with which properties are turning over has slowed considerably, yet the prices of homes have remained level. Fear of recession has been allayed by economists who, with the publication of the most recent UCLA Anderson Forecast, cite that job growth will potentially slow to one percent through 2008 and taxable sales will slow to two percent. The fact that these two indicators are still growing is a positive sign.

As Huntington Beach continues to add retail centers and increase the number of marquee events such as the AVP Volleyball Tournament, U.S. Open of Surfing, and the Surf City Marathon, the amount of sales tax and transient occupancy tax realized are projected to increase.

### **Court Decisions**

City management is diligent in its surveillance of legislation and court decisions with the potential to impact the City. In recent years, several landmark court decisions have reduced the amount of revenue the City receives, posing a challenge in balancing the budget. In 2005, the ruling in the *Howard Jarvis v. City of Fresno* case resulted in the loss of approximately \$6 million in ongoing General Fund revenue from water in-lieu fees. In *Bighorn-Desert View Water Agency v. Verijil*, the California Supreme Court ruled that utility charges for water, sewer, and trash are subject to restrictions imposed by Proposition 218 in regard to the rate-setting process as well as the use of rate proceeds. These restrictions have limited the ability of specific Enterprise Funds to contribute revenue to the General Fund. Additionally, less publicized court decisions, such as the ruling resulting in a reduction in the Police Department's ability to impound vehicles, have compounded the problem of maintaining steady revenue streams.

## **Future Considerations**

### ***Mid-Year Budget Review***

The FY 2007/08 budget is a strategically constructed document, balancing the needs of the community with available resources. Over the past few years, Administration has made tremendous progress toward rightsizing of both individual departments and the city-wide budget as a whole. This effort has been continued in the preparation of the adopted budget document and is anticipated to provide the resources necessary for high quality services to residents and visitors of Huntington Beach. In the event this effort was too aggressive, the mid-year budget process may be used to make necessary adjustments.

### ***Setting of Pension Tax Rate***

Each year, the City must set its employee supplemental retirement tax rate and inform the County by September 1, which is prior to the City's annual budget review. Due to the timing, the resolution is done separately from the budget. The City of Huntington Beach levied a tax, at the rate of .007 per \$100 of assessed value for FY 2006/07, on all assessed property in the city to partially fund the CalPERS safety retirement program.

### ***Summation***

Consistent with recent years, the adopted budget is balanced, strengthens City services and facilities, addresses future needs, aggressively contributes toward unfunded liabilities, and maintains the fiscal viability of the City.

The final budget document will be submitted to the Government Financial Officers Association (GFOA) for consideration for their Distinguished Budget Presentation Award program.